



U.S. Department of Agriculture
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Permanent Normal Trade Relations With China **What's at Stake for Solid Wood Products?**

China's successful entry into the World Trade Organization (WTO) will dramatically cut import barriers currently imposed on American agricultural products, including solid wood products. The bilateral accession agreement China signed with the United States locks in lower tariffs, allows U.S. companies to more freely market and distribute products, and commits China to use sound scientific protocols for phytosanitary import regulations. These, and other, concessions will expand our access to a market of over one billion people. China's economy is already among the world's largest and over the past 20 years has expanded at a phenomenal rate of nearly 10 percent per year. Coupled with impressive income growth and China's reduced capacity to supply its own wood fiber needs, China has become a top growth prospect for U.S. wood exports.

Congress must grant China permanent normal trading relations (PNTR) status in order to guarantee that American agriculture and forestry benefit from the concessions the U.S. negotiated bilaterally under the WTO. Even if Congress fails to approve PNTR, China will likely become a member of the WTO. Failure to grant China PNTR would mean that our Asian, European and Latin American competitors would enjoy these benefits while American agriculture and forestry would lose out.

The Market

China, the world's third largest wood importer, imported \$2.8 billion worth of solid wood products from around the world, in 1999, up from \$2.0 billion the previous year. Value-added wood products represented a record \$1.4 billion or 50-percent share in 1999, with unprocessed logs and chips comprising the rest. U.S. value-added solid wood exports to China are expected to achieve a record \$60 million in 2000, \$20 million higher than the record set in 1997, the last year before the Asian economic crisis reduced wood demand in the region.

China is also a major producer of forest products, ranking as the world's fourth and fifth largest producer of softwood and hardwood logs, respectively. But China's annual allowable timber harvest has been decreasing because of logging bans in 18 provinces to control flooding and soil erosion. Officially, China's allowable annual cut is 55-60 million cubic meters. By comparison, the United States harvests more than 450 million cubic meters annually.

In 1998, China began to privatize its housing market, including reforms to create primary and secondary mortgage markets. Nevertheless, as of January 2000, half of China's residential housing was still under state authority. China also lacks a modern building code, particularly regarding wood-frame construction. While data are incomplete, housing starts are currently estimated at 14 million

apartment units per year. China is also a major producer of furniture, both for domestic consumption and export. China's advantages as a low-cost producer and exporter of furniture are fueling imports of hardwood, both temperate and tropical species.

In January 1999, tariffs for logs and lumber were reduced to zero, in part to compensate for reduced domestic production caused by logging bans. Nevertheless, tariff rates on most value-added solid wood products remain very high, ranging from 12 to 21 percent.

The Opportunities

- China's accession to the WTO would reduce tariffs on solid wood products an average of 4 percent by 2004. These tariff reductions will stimulate stronger demand for U.S. solid wood products in China and lower the cost of processed materials for which U.S. producers hold competitive strength and quality recognition in world markets.
- U.S. companies will be able to more freely market, distribute, and provide sales services through China's liberalized distribution system, a primary commitment sought by U.S. agricultural exporters. China now generally prohibits companies from distributing imported products, an obstacle that will remain in place without PNTR. China's distribution commitment, phased in over three years, is comprehensive, covering commission agents services, wholesaling, retailing, franchising, trucking, warehousing, repair and maintenance.
- In the mid-1990's, China embarked on a series of reforms to liberalize trade in wood products, investment, and consumption. More recently, priority has been given to housing policy. Coupled with impressive income growth and China's reduced capacity to supply its own wood fiber needs, these reforms have helped make China a top growth prospect for U.S. wood exports. With Hong Kong trade included, China is ranked No. 8 as an export market.
- The United States and China have been increasing their contact on housing issues, including a bilateral initiative in 1998 to promote technical exchanges in housing construction and finance. While this initiative is largely designed to address longer term social reform and market development issues, it has also stimulated interest and demand for imports of U.S. housing products and services in China.

The Bottom Line for the U.S. Solid Wood Products Industry

- Further opening of China's housing, furniture, and paneling sectors to imports will create new opportunities for the U.S. wood industry in a wide range of products including hardwood and softwood lumber, molding/millwork products, and structural panel products for wood roof construction. These new trade opportunities would benefit income and employment across U.S. industry. Solid wood products are produced, processed, and exported from all 50 states with value-added wood products comprising 70 percent of total U.S. solid wood exports.

- China's accession will allow for a greater number of companies to trade with China, and permit foreign enterprises to engage in distribution services, which will be very important for introducing and expanding sales of U.S. wood materials and technology.
 - The United States faces strong competition for China's growing wood imports. Southeast Asian competitors include Indonesia and Malaysia, China's two largest suppliers of solid wood products (mainly tropical hardwood). For temperate species, Russia, Canada, New Zealand, and Europe are all vying for a share of the huge Chinese market. U.S. producers would suffer a major disadvantage if China accedes to the WTO and Congress does not grant PNTR.
- C As export sales grow, jobs will be created and supported in forest products and other industries. These exports support jobs in the harvesting, manufacturing, and packaging sectors, widely dispersed throughout all 50 states. The supporting industries earn profits from resale, export, storage, shipping, transportation, finance, and other related activities.